

State of the Union: 'An Era of American Renewal'

Special to The New York Times

WASHINGTON, Jan. 26 — Following is the text of President Reagan's State of the Union Message to a joint session of Congress today, as released by the White House.

Today marks to you, a constitutional duty, our annual State of the Union. President Washington began this tradition in 1790 after reminding the nation that the destiny of self-government "and the sacred fire of liberty" is "firmly entrusted on the experiment entrusted to the hands of the American people." For our friends in the press, who place a premium on accuracy, I might say, I did not actually hear George Washington say that, but it is a matter of historic record.

From this podium, Winston Churchill asked the free world to stand together. Franklin D. Roosevelt spoke of a nation at arms. Douglas MacArthur made an unforgettable farewell to a country he had saved. And, as well, Dwight Eisenhower reminded us that peace was purchased only at the price of strength and John F. Kennedy the burden and glory that is freedom.

When I visited this chamber last year, a newcomer to Washington, critical of past policies which I believe have been replaced by a partnership between this Congress and this Administration and between Washington and our state and local

governments, I forged this new partnership for America we could achieve the oldest hopes of our people — prosperity for our nation; peace for the world; and the dreams of individual liberty for our children; and, someday, for all of humanity.

Changing Face of Government

It is my duty to report to you tonight on the progress we have made in our partnership. We have laid a solid foundation for economic recovery, laid for our economic recovery and, finally, for a bold and spirited initiative that I believe can change the face of American government and, again, the ser-

vants of the people.

Seldom have the stakes been higher for America. What we do and say here will make all the difference to our workers in Detroit, to those in the Northwest, and steelworkers in Steubenville who are in the unemployment lines; to black teen-agers in Newark and elsewhere; to hard-pressed farmers and small business owners; and to millions of everyday Americans who harbor the simple wish of a safe and financially secure future for their children.

To our citizens, Union, we must look not only at where we are and where we are going but at where we've been. The situation at this time last year was truly ominous.

The economy descended into a series of recessions. There was a recession in 1970, another in 1974, and again in the spring of 1980. Each time, unemployment increased and inflation soon turned around again. We heard the word "stagflation" to describe it.

Government's response to these recessions was to pump up the money supply and increase spending.

Double-Digit Inflation

In the last six months of 1980, as an example, the money supply increased at the rate of 14 percent and inflation at 13 percent. Inflation remained in double digits and Government spending increased at an annual rate of 17 percent. Interest rates reached a staggering 18 percent. There were eight million unemployed.

By late in 1981, we sank into the present recession — largely because continued high interest rates hit the auto industry and construction. That recession hit in productivity and the already high unemployment rate increased.

This time, however, things are different. We have an opportunity to end the artificial quick-fixes of the past. It calls for reduction of the rate of increase in Government spending, and almost certainly for a reduction in interest rates by half. But reduced spending alone isn't enough. We've just implemented the first and smallest phase of a three-year tax-reduction plan designed to stimulate the economy and create jobs.

Already interest rates are down to 15 percent, but they must still go lower. We must get down from 12.4 percent to 4.5 percent, and for the month of December it was running at an annualized rate of 5.2 percent.

If we had not acted as we did, things would be far worse for all Americans than they are today. Lower taxes and interest rates would be at higher levels.

Faith in Government

A year ago, Americans' faith in their governmental process was steadily declining. Six out of ten Americans were saying they were pessimistic about their future.

Any kind of deflation was heard. Some said our domestic problems were uncontrollable — that we had to learn to live with the seemingly endless cycle of high inflation and high unemployment.

There were also pessimistic predictions about the relationship between our Administration and this Congress. It was said we could never work together. Well, those predictions were wrong.

The record is clear, and I believe history will remember this as an era of American greatness. Last night, the Administration as an Administration of change and remember this Congress as a Congress of destiny.

Together we not only cut the entire Government budget by nearly half, we brought about the largest tax reductions and the most sweeping changes in our tax structure since the beginning of the century. And, to infer future taxes to the rate of inflation, we took away Government's built-in profit on inflation and its hidden incentive to grow larger at the expense of American workers.



Raymond J. Donovan, Secretary of Labor, left; James B. Edwards, Secretary of Energy, and Jeannine Kirkpatrick, chief U.S. representative to the United Nations, chatting at the White House before luncheon.

The New York Times / D. Goran

Together, after 30 years of taking power away from the hands of the people and from local communities, we have started returning power and resource to them.

Together, we have cut the growth of our Federal Register by nearly in half, and now there are 20,000 fewer pages in the Federal Register, which lists new regulations, than there were in 1980. By deregulating oil, we have come closer to energy independence and helped bring down the costs of gasoline and heating fuel.

Together, we have created an effective Federal strike force to combat strikes. In just six months it has saved the taxpayers more than \$2 billion, and it's only getting started.

Together, we have begun to restore that margin of military safety that insures peace. Our country's uniform is being worn once again with pride.

Together, we have made a new beginning, but we have only begun.

Inaugural Address Warning

No one pretends that the way ahead will be easy. In my inaugural address last year, I warned that "theills we face are serious and the challenges we meet are difficult."

The economy will face difficult moments in the months ahead. But the progress for economic recovery that is in place will pull the economy out of its slump and put us on the road to prosperity and stable growth by the latter half of this year.

That is why I can report to you that in the near future the state of the Union and the economy will be better — much better — if we summon the courage to continue on the course we have charted.

And so the question: If the fundamental

Two things. First, we must understand that our economy is not the enemy to the economy. Our current problems are not the product of the recovery program that is only just now getting under way, as some would have us believe. The real enemy needs to be to preserve this fact and the greatest bastion of freedom."

The economy will face difficult moments in the months ahead. But the progress for economic recovery that is in place will pull the economy out of its

slump and put us on the road to prosperity and stable growth by the latter half of this year.

The budget deficit this year will exceed our earlier expectations. The recession did that. It lowered revenues and raised costs. To some extent, we are also victims of our own success. We have brought inflation down faster than we thought we could and have deprived Government of those hidden automatic cost-of-living increases that push people into higher income tax brackets. And the continued high interest rates last year cost the Government about \$3 billion more than anticipated.

We must cut out more nonessential Government spending and root out more waste, and we will continue our efforts to reduce the number of employees in the Federal work force by 75,000.

The budget plan I submit to you on Feb. 8 will realize major savings by dismantling the Departments of Energy and Education, and by eliminating the Office of Science.

We will continue to redirect our resources to our two highest budget priorities — a strong national defense to keep America free and at peace, and a strong social safety net to help those who have contributed and those who are in need.

The main reason for this is the over-powering growth of Federal grants-in-aid programs during the past few decades.

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mental effort to improve and develop our depressed urban areas in the 1980's and 1990's. This legislation will permit the states to locate funds to apply to the Federal Government for use as urban enterprise zones. A broad range of special economic incentives in the zones will help attract new business and job opportunities to America's inner cities and towns. Some will say our mission is to save free enterprise. I say we must free enterprise so that, together, we can save America.

So, too, will we say our state and local communities are not up to the challenge of a new and creative partnership. That might have been true 20 years ago before reforms like reorganization of the military and the 10-year extension of which I strongly support. It is no longer true today. This Administration has faith in state and local governments and the community. We believe in the Founding Fathers. We also believe in the integrity, decency and sound good sense of grass-roots Americans.

Our faith in American people is reflected in another major endeavor.

Our budget deficit this year will exceed our earlier expectations. The recession did that. It lowered revenues and increased costs. To some extent, we are also victims of our own success. We have brought inflation down faster than we thought we could and have deprived Government of those hidden automatic cost-of-living increases that push people into higher income tax brackets. And the continued high interest rates last year cost the

law which requires all large corporations to pay a minimum tax. I am confident the economic program we have put into operation will protect the needy while it triggers a tax on the rich. We have also taken steps to help them perform the goods and services they choose, and help others to profit by their example.

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posed to the Soviet Union a far-reaching agenda for mutual reduction of military forces and have already initiated negotiations in Geneva on intermediate range nuclear forces.

In those talks it is essential that we remain from a position of strength. There must be a signal from the Soviets that they are serious.

The protection of our national security has required that we undertake a sensible program to enhance our military forces.

We have not neglected to strengthen our traditional alliances in Europe and Asia, or to develop key relationships with our partners in the Middle East and Africa.

Building a more peaceful world requires a sound strategy and the national resolve to back it up. When radiacal forces, like ours, are willing to risk their lives, when we are willing to risk our freedom, when we are willing to risk our families, when we are willing to risk our homes, when we are willing to risk our health, when we are willing to risk our safety, when we are willing to risk our freedom, when we are willing to